

**NORTHERN UTILITIES, INC.**

**REVISED  
COST ALLOCATION MANUAL**

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## 1. Introduction

Northern has developed this Cost Allocation Manual, prescribing the manner in which costs will be charged to its non-regulated service affiliate for equipment, facilities, service and personnel, in compliance with the requirements set forth in Chapter 820 and the Commission's Order in docket no. 1999-254, dated October 11, 2000.

Section 4 of Chapter 820 requires that any utility equipment, facility, service or personnel used by an affiliate to provide non-regulated service shall be charged to the affiliate at the tariffed rate, if applicable, or in the absence of a tariffed rate, at market price, if available; otherwise, at the utility's fully distributed cost. 65 A.M.R.S.A. § 407, Ch. 820, §4.A. Utility assets transferred to an affiliate must be recorded at the asset's market price. Ch. 820, §4.B. Any equipment, facility, service or personnel of a non-regulated affiliate used by a utility must be priced at the same price charged to non-affiliates; if no such price is available, the market price shall be charged. Ch. 820, §4.E. Non-regulated affiliates' assets transferred to utilities must be priced at fair market value. Ch. 820, §4.F.

## 2. Definitions

In addition to those terms defined in Chapter 820, as used in this cost allocation manual, unless the context requires otherwise:

- A. **"Affiliate"** shall mean a non-regulated entity engaged in the provision of service or sale of goods or products in a competitive retail market, that controls or is controlled by or is under common control with a utility.
- B. **"Common Costs"** shall mean those costs which do not have a specific, identifiable causal relationship with a particular affiliate, but which benefit all affiliates, or more than one.
- C. **"Direct Costs"** shall mean costs that are specifically incurred on behalf of one or more affiliates for non-core activities.
- D. **"Fully Distributed Costs"** shall mean the apportionment of all costs, directly or indirectly, to the beneficiary affiliate(s) or non-core activities for the service provided.
- E. **"Indirect Costs"** shall mean those costs which are assignable to an affiliate or non-core activities that bear a causal relationship and are allocated based upon a methodology as set forth herein.
- F. **"Non-Regulated"** shall mean any service or activity that is not a "core" service or activity, and is not subject to regulation by the Maine Public Utilities Commission or Federal Energy Regulatory Commission, as appropriate.

- G. **“Business Services”** shall mean services centrally managed and organized as a division of NiSource, Inc., that benefit Northern and its affiliate(s).

### **3. Cost Allocation Principles and Approach**

Northern is a wholly-owned subsidiary of Bay State Gas Company (“Bay State”), which in turn is a wholly-owned subsidiary of NiSource, Inc. Columbia Service Partners, Inc., (“Service Partners”) also a wholly-owned subsidiary of NiSource, Inc., will serve as the corporate vehicle for providing goods, products and services to the competitive retail market in Maine. Service Partners, which will operate under a “dba” as “Northern Utilities Service Company,” is a separate corporate entity, and is operated separately and independently from both Northern and Bay State (see the attached corporate organizational chart, set forth on Appendix A). Northern will provide certain services to Service Partners, such as billing and bill insert services, accounting services, and other support for consumer services offered by Service Partners to its customers. Northern will not preference Service Partners in the provision of access to utility facilities or services, or in influencing utility customers to use the services of its affiliates, as specified in Chapter 820, §8.C.

Northern’s goal is to directly assign costs to the greatest extent possible. Where direct assignment is not possible or practical, Northern will distribute said costs to Service Partners based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available to ensure that traditional, core utility business activities and customers are not subsidizing Service Partners.

Certain services are currently provided to Northern by Bay State and Business Services, as well as corporate management and governance provided by NiSource, Inc. For example, services are currently provided to Northern in the following functional areas by both Bay State and Business Services: accounting, human resources, information technology, legal, finance, and management. As an existing, separate corporate entity, Service Partners makes use of a blend of its own, internal and external support service providers and Business Service providers, including NiSource corporate management and governance support. Service Partners has entered into a separate “Support Services Agreement” with Northern, which outlines the types of services Northern may provide for Service Partners, as well as the terms and conditions under which such services will be provided. Service Partners also contracts for and receives similar services independently of Northern, and will therefore, not receive significant support and corresponding allocations of certain functional costs from Northern.

Other cost categories will be shared by Northern with Service Partners, and will thus be subject to allocation as set forth herein. Examples of such cost categories requiring allocation are: indirect payroll items, such as supervision, absences, fringe benefits, dispatch, customer call center; general administration; fleet expense; stores expense; and facility space.

## **A. Direct Assignment**

It is Northern's policy to directly assign costs to non-regulated affiliates and non-core business activities to the greatest extent possible. A major portion of the directly assigned costs will be labor and labor-related items. For example, where Northern service workers are performing work for Service Partners, the individual's time will be coded as chargeable to Service Partners. All time coded as such will be tallied, charges calculated, and invoiced to Service Partners on a monthly basis. A list of direct charge labor codes from Northern to Service Partners are attached as Appendix B.

Other examples of directly assignable costs include tools and equipment, uniform rental, advertising, bad debts, and office expenses. Tools and equipment costs are directly charged to Service Partners when used for non-core service business work. When tools and equipment are withdrawn from inventory, they are coded to reflect the type of job being worked. Office expenses are directly charged to Service Partners for non-core service business work when paying invoices and processing expense reports, and include costs for items such as forms, telephone expenses, office supplies, and the like. Similarly, uniform rental costs are directly charged to Service Partners for non-core service business work when invoices are processed.

Other costs previously incurred by Northern in pursuit of its non-core service business, such as central supervision and management of the service business, will be transferred to Service Partners and treated accordingly. This includes the following services: business management, data entry, and customer relations, and includes labor, supervision, employee expenses and facility expenses.

## **B. Common Costs**

Where costs are not directly assignable, the next preference is for those costs to be aggregated by function and assigned between Northern and Service Partners based upon cause. Examples of such functions include payroll service costs; indirect payroll items, such as supervision, absences, fringe benefits, dispatch, workforce planning, customer call center, and general administration; fleet expense; stores expense; and facility space.

### *Service Supervision*

Service supervision and administrative labor costs include all labor expenses associated with the supervision and clerical support of the customer service function. Payroll for customer service supervision and clerical assistance is allocated to Service Partners based upon a ratio of planned direct labor expense charged to Service Partners to total direct labor expense for the service department. Specific activities for these functions include rental repairs, installation work and fee for service business. Payroll allocations are based upon planned direct labor costs for the different activities, and are entered into the payroll system, which then distributes labor costs to appropriate account numbers relating directly to specific activities. Northern shall prepare a year end calculation of the ratio of actual direct labor expense charged to Service Partners to total

direct labor expense for the service department for the previous year. If the difference between this ratio and the ratio used to allocate supervision and administrative costs in the previous year is greater than 10%, a year end adjustment shall be made to reflect the amount of supervision and administrative labor costs that would have been allocated to Service Partners had the actual ratio been known.

#### *Service Dispatch and Call Center Operations*

Dispatch and call center service are provided to Bay State and Northern through centralized facilities, and are allocated to Northern-Maine based on an allocation formula. Service Partners shall be responsible for a share of these operations equal to the percent of total planned Northern Labor charged to Service Partners.

#### *Fleet*

Fleet expenses are accumulated in clearing accounts and allocated to the user departments, based upon the number of factored vehicles in each department and the use of these vehicles in core utility operations and non-core service operations, as reflected in labor hours charged.

#### *Stores*

Stores expenses include the cost of operating the materials and supplies storerooms in the Brockton, Lawrence and Springfield divisions. These costs are accumulated in a series of clearing accounts, and are allocated based upon the dollar value of stock withdrawn by the various core utility and non-core service operations.

#### *Facilities*

Facilities costs include costs of offices in Portland, Maine, Portsmouth, New Hampshire, and Springfield, Massachusetts, which are shared by employees in different business segments and different support services, performing various functions. The costs associated with the buildings, equipment and land will be allocated to Service Partners based on full time employee head count and labor hours charged.

#### *Payroll Overheads*

Payroll related overheads are labor and labor related costs such as pension, healthcare and similar benefits costs, vacation, sick and other lost time benefits, payroll taxes, etc., which are allocated on a monthly basis, based upon labor charges.

#### *Benefits*

Appendix C provides the employee benefits labor loader that shall apply to all direct labor charged to Service Partners. The employee benefits labor loader shall be

recalculated at the beginning of each calendar year. Appendix C contains the calculation methodology for benefit overheads.

### *Nonproductive Time*

Nonproductive time (holidays, sick time, vacations, etc.) for direct labor is initially charged to a deferred account. These costs are then charged to customer service O&M and capital accounts monthly, based upon the distribution of direct labor of the service and metering functions. Allocation factors used to distribute nonproductive time costs are calculated at the beginning of each calendar year. The planned direct labor hours for the service and metering functions in each geographic location are used to develop an allocation of these costs between O&M and capital for the metering and service functions. Service Partners shall be responsible for a share of nonproductive time based on a ratio of direct labor costs charged to Service Partners divided by total labor costs of Northern.

### *Other Overheads*

Occupancy Overhead: Occupancy overhead allocates costs related to the workspace occupied by Northern employees when doing work that benefits affiliates, including costs associated with equipment and land. The rate is calculated by dividing the economic carrying costs of the buildings by the total actual labor dollars of employees working in those buildings. See Appendix D for calculation.

Stores Overhead: Stores overhead includes warehousing, lobby stock materials, a support service component, truck stocking costs, and a return on investment component, if material is stored in a service center prior to being used. See Appendix E for calculation.

Fleet Overhead: Fleet overhead includes all costs, including the cost of capital related to the use of Northern's vehicles. It is applied to billable vehicle expense. See Appendix F for calculation.

### *Other Costs Directly Allocated to Service Partners*

As noted previously, corporate management and governance is provided by NiSource, Inc., to all of its subsidiaries. As an existing, separate corporate entity within the NiSource organizational structure, Service Partners receives its own allocations of costs representing services rendered by the corporate parent. Service Partners also makes use of a blend of its own, internal and external support service providers and Business Service providers. Since Service Partners contracts for and receives such services independently of Northern, it is not anticipated that Service Partners will receive significant support and corresponding allocations of such functional costs from Northern. To the extent that any such common costs are charged to Northern and in fact benefit both Northern and Service Partners, and are properly handled through allocation of some portion to Service Partners by Northern, such costs shall be allocated to Service Partners

on a reasonable, rational and equitable basis. In such circumstances, Northern will rely on the cost allocation principles contained in the Federal Communications Commission's Rules governing the separation of regulated costs from non-regulated costs. 47 CFR § 64.901. A copy of 47 CFR § 64.901 is included in Appendix G.

#### **4. Assets**

To the extent that future assets purchased by Northern for use in its core utility service operations are utilized by a non-regulated affiliate for non-core service, the non-regulated affiliate will be required to pay the tariffed rate, if applicable, or in the absence of a tariffed rate, the fully distributed cost of the asset, in accord with the requirements established by Chapter 820 and the SEC.

To the extent that future assets purchased by a non-regulated affiliate for use in its non-core services are utilized by Northern for core utility service, Northern will be required to pay the same price paid by non-affiliates. If no such price is available, the asset shall be priced at cost, in accord with SEC requirements pursuant to its authority under the 1935 Public Utility Holding Company Act.

#### **5. Billing to Affiliates**

Northern's accounting function generally, and controller specifically, will be responsible for the review of all costs and calculations contemplated by this cost allocation manual, and shall be responsible for the preparation and submission of invoices to Service Partners, on a monthly basis. Such invoices shall disclose the direct charges, billing overheads, and shared services costs. Any extension of payment terms beyond those offered by the utility in the normal course of business shall require Commission approval.

#### **6. Update of Procedures; Audit Requirement**

The methodology described in this manual shall be reviewed not less than annually, and updated as necessary. Northern's controller will have responsibility for coordinating such review with representatives from Service Partners, and updating this cost allocation manual as necessary. This manual shall be updated to comply with any orders, regulations or requirements promulgated by federal authorities. As part of its annual report to the Commission required pursuant to 35-A M.R.S.A. § 504, Northern shall indicate the amount received from Service Partners for the use of Northern's equipment, facilities, services, personnel, and intangibles. Northern's outside auditors shall be required to check for compliance with Chapter 820 and applicable Commission orders.

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APPENDIX A

CORPORATE ORGANIZATION CHART

APPENDIX B

DIRECT CHARGE CODES

APPENDIX C

BENEFIT OVERHEAD CALCULATION

APPENDIX D

OCCUPANCY OVERHEAD CALCULATION

APPENDIX E

STORES OVERHEAD CALCULATION

APPENDIX F

FLEET OVERHEAD CALCULATION

APPENDIX G

47 CFR § 64.901

FEDERAL COMMUNICATIONS COMMISSION  
RULES GOVERNING COST ALLOCATION